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Lebanon's Currency Crisis Paves The Way To A New Future



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Once known for its dynamic food, music and culture, Lebanon is now in the midst of the worst economic crisis in modern history. With no clear resolution in sight, the country is experiencing rolling blackouts, a shortage of food and [a monthly inflation rate of 56%](#). The Lebanese Lira joins a list of dozens of failed fiat currencies including the Venezuelan Bolivar, the Zimbabwean Dollar and Argentinian Peso.



TOPSHOT - A protester holding the Lebanese flag runs as protesters block the Jounieh Tripoli highway

... [\[+\]](#) AFP VIA GETTY IMAGES

A small middle-eastern country with a population of only 5 million, Lebanon takes pride in its emigrant community with countless families in Canada, U.S. and Britain. The Lebanese diaspora is estimated to be about three times the size of the Lebanese population back home.

Many expats were able to find success abroad, bringing pride to Lebanon. Some notable Lebanese figures include writer Nassim Nicholas Taleb, barrister Amal Clooney, actress Salma Hayek, singer Shakira, billionaire Carlos Slim and former Chairman of Fox Broadcasting, Lucie Salhany. Each year, Lebanese expats visit their homeland and infuse billions of dollars to keep the economy liquid.

An Import-Based Economy

In 1997, the Central Bank of Lebanon pegged the Lebanese Lira to the U.S. dollar at 1507 to 1. Over the last two decades, the stability of the Lebanese economy depended on a fixed exchange rate to the U.S. dollar.

Lebanon is largely a service based economy, heavily dependent on tourism most of which is conducted in U.S. dollars. Due to corruption and an unfriendly system to businesses, Lebanon did not develop self-sustaining domestic industries like many of its neighbors. [Lebanon imports a staggering 80% of its products](#) - most of the country's oil, meat, grain and other supplies come from abroad. Lebanon receives U.S. currency inflows through tourism, foreign aid, remittances and loans. And in turn, spends those dollars to purchase supplies across borders.

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Currency stability encouraged expats to continue to send money home, buy property and even deposit cash in local banks. It is estimated that Lebanese abroad sent [remittances worth up to 12.5% of Lebanon's GDP](#), keeping the economy afloat. The dollarization of Lebanon contributed to its growing wealth divide, where [Lebanon's top 1% earned 25% of the country's GDP](#), making it one of the most unequal economies in the world.

Lebanese Banking System

Revenue into Lebanon began to dry up due to upheaval in neighboring Syria, which pushed officials to engage in creative financial engineering to keep the Lira stable. To maintain an illusion of stability and incentivize deposits, [banks offered interest rates as high as 14%](#), which in turn required more deposits to pay the high interest rates, creating a Ponzi scheme.

It took a while for people to notice the scam, however. Entering 2019, pressure on the Lira-Dollar peg continued to increase. Riad Salameh, head of the Central Bank of Lebanon, issued an order requiring all money transfer offices, such as Western Union and MoneyGram, to [pay cash out in Lira rather than dollars](#), even where transfers were specifically denominated in dollars. This was the first red flag of a looming currency crisis.



Lebanese protesters gather outside a money transfer service provider calling on him to close his ...

[+] AFP VIA GETTY IMAGES

Over the next few months of 2019, the demand for dollars continued to rise. Currency exchange booths and banks had an influx of retailers and individuals wanting to buy dollars. Merchants also needed larger amounts of dollars to cover imports, putting additional pressure on the peg.

Since the Lira was officially pegged at 1507 to 1, a black market for dollars began to form, allowing purchases of dollars at a higher price. But this was still the calm before the storm.

In August 2019, [Fitch downgraded Lebanon's credit rating from B- to CCC](#). A few weeks later, Jammal Trust Bank was forced to liquidate itself after being [hit by U.S. sanctions](#) for allegedly helping to fund Hezbollah. The bank had 25 branches in Lebanon, creating a huge blow to the Lebanese banking system. In the background, Lebanon started printing more Lira, but many had not yet noticed.

Protests

On October 17th, 2019, protests were set off by a proposed tax on WhatsApp phone calls. This was ‘the straw that broke the camel's back’, as the protests were fundamentally about decades of corruption as well as Lebanon's sectarian political order.



TOPSHOT - Lebanese demonstrators raise a new giant sign of a fist that bears the Arabic word ... [+] AFP VIA GETTY IMAGES

Lebanon's political system is a complicated balance of power sharing and sectarian quotas for the country's various religious groups consisting of Shia and Sunni Muslims, Druze, and several Christian groups. The formula and quotas to maintain peace between these different groups extend to everything from allocation of public funds to entry-level jobs. This system prolonged a divisive atmosphere in Lebanon, making it a battleground for many of the ideological conflicts of the Middle East.

For a first-hand account, I sat down with Lebanese-Canadian actress Sarah Himadeh, who by a twist of fate became one of the leading activists during the protests last year. Her family originally fled Lebanon during the 80s. She recounts her experience of the protests:

“I was visiting my sick grandmother back in Lebanon last October and the protests started the day before I was supposed to head back to LA. I knew that this was a transformative moment for my country and there was no way I was going to leave. There was no way I wasn’t going to stand for my country, there was no way I wasn’t going to stand for a unified Lebanon. They say October 17th 2019 is the official date of the end of the civil war, because this was the first time we, all the Lebanese, from all factions came together. Martyr Square in Beirut was the most inspired and inspiring place in the world that day. And for months to follow. I’ll never forget it.

The Lebanese diaspora don’t necessarily want to be scattered all over. We don’t necessarily want to live in Toronto, New York, LA, London, Paris or Dubai. We want to live in the Lebanon we all long for. In its mountains, and on its shores. In an incorruptible and secular Lebanon. That’s where we want to live. And that’s what we were fighting for.”



Sarah Himadeh and friends in Martyr Square protesting for Lebanon. SARAH HIMADEH

Peaceful protests continued for months. The government cut power almost daily to its communities, but the Lebanese spirit could not be tamed as protesters danced in the streets. Lebanese Prime Minister Saad Hariri resigned, but the people wanted more sustained change.

Protests were eventually paused by the COVID-19 pandemic. Although quarantine provided some much needed relief from the streets, it further exacerbated the economic conditions in Lebanon. Many emerged from quarantine with no job prospects and no funds to buy necessities. As Lebanon runs out of fuel, citizens experience blackouts up to four days a week. And with a shortage of dollars to import grain and meat, Lebanon is facing famine.



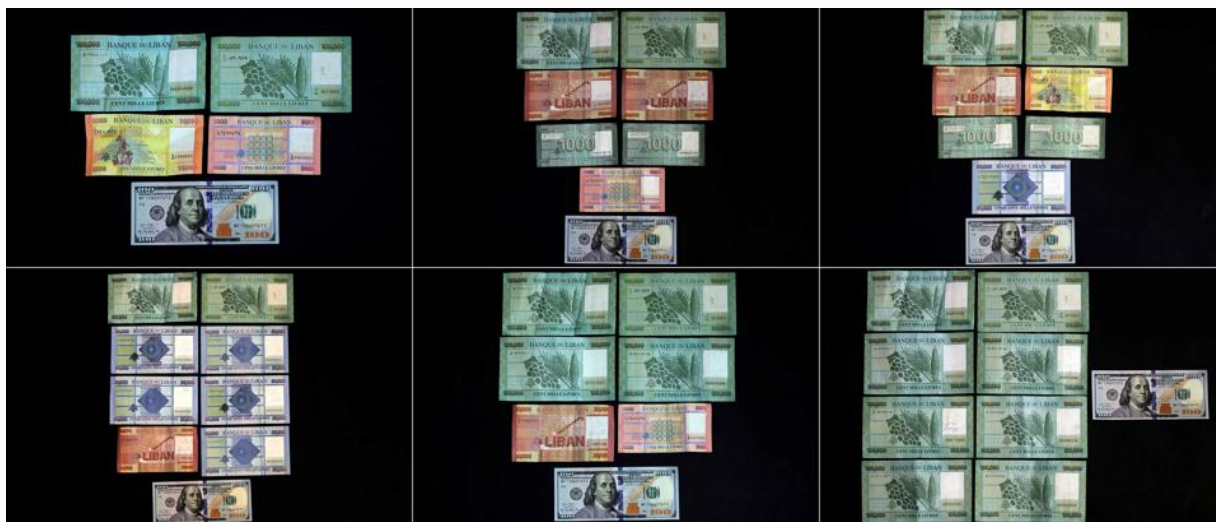
TOPSHOT - A Lebanese woman stands next to her empty refrigerator in her apartment in the port city ... [+] AFP VIA GETTY IMAGES

Currency Crisis and Hyperinflation

As Lebanon's economic unrest continued, those holding Lira rushed to buy dollars, driving the black market exchange rate as high as 10,000 Lira per dollar, up from the official peg of 1,507, devaluing the currency by 85%.

Banks began to limit withdrawals of U.S. dollars, first to \$300 and then to none at all. Merchants started to refuse to take payment by cards for fear that banks would not honor the payments.

At a time when the pandemic already left so many with a shortage of food, food prices soared. Where 2 pounds of red meat used to go for \$9 dollars, the same amount would now cost \$43 or 65,000 lira. People lined up in front of bakeries and butcher shops, hoping to buy goods before prices rose the following day. But prices did continue to rise, and the Lebanese government continued to print more Lira. At the time of writing, the exchange of Lira to Dollar on the black market is 10,000 to 1.



(COMBO) This combination of pictures created on June 29, 2020 shows the black market rate, as ...

[+] AFP VIA GETTY IMAGES

Some political leaders proposed that the crisis presented an opportunity for Lebanon to take charge of its own food supply and develop its own agricultural industry. But farmers could not afford to build a new infrastructure, to buy seeds, fertilizers or other chemicals needed for crops.

On June 11, 2020, protestors in Tripoli, Lebanon's second-biggest city, threw petrol bombs at the central bank, setting it on fire.

Where does Lebanon go from here?

Lebanon cannot begin to rebuild its country without establishing a new monetary system, the backbone of every society. Waiting for the government to introduce a new national currency without regained trust in authority is futile. The people of Lebanon, however, have three other options to rebuild their economy without waiting for a government rescue.



Sarah Himadeh inside the Egg theatre leading a team to pick up and recycle garbage. In just 2 weeks,
... [+] SARAH HIMADEH

1. Commodity Money

Money does not need to be the paper we are used to seeing in our wallet.

Money can be anything that serves as a store of value, unit of account and a

medium of exchange. Money is how our communities trade within themselves and with others. To accomplish domestic exchange, Lebanon could use any commodity they trust from grain to gold. An example of this method in modern history is Post-WWII Germany which briefly defaulted to using cigarettes as money for trade of basic necessities within communities, as cigarettes always have a predictable value. A stable unit of account such as grain, gold or even cigarettes, allows residents to buy food for their families, store keepers to receive a fair price for goods, and workers to earn a stable wage.

2. Dollarization

Lebanon cannot sustain itself as a closed economy, as it heavily relies on foreign imports of grain, meat and oil. Therefore, it needs to use a currency that is easy to spend across borders.

In 2009, after a similar wave of hyperinflation, Zimbabwe adopted dollarization, effectively abandoning its own currency and adopting the U.S. dollar as its main currency. This measure was in effect until 2019, when the country reintroduced a new Zimbabwean dollar. This is a tried-and-true formula of using a 'safe haven' fiat currency as a substitute, especially for countries with significant dollar-based debts and imports.

Adopting the dollar poses two main problems. The first is it gives ultimate control of your future over to the stability of America, a country known for bending political powers to its will through sanctions. The second is that there are simply not enough dollars to go around. The COVID-19 pandemic created an unprecedented shortage for U.S. dollars globally, now used in over 80% of all global trade. With an already rising black market for dollars in Lebanon, driving demand for dollars further seems like the wrong direction.

Furthermore, there are many expat families who want to send money to their families in Lebanon, but cannot do so in dollars, as the dollars are

being confiscated by banks and money exchanges. Those who do get their hands on dollars are much more likely to hoard them than to spend them within their communities, further constraining the economy.

3. Bitcoin

Proponents of digital currencies have long advocated that Bitcoin is tailor-made for these types of economic situations. For the newbs, Bitcoin is a digital store of value which anyone can use on their smartphone or computer. It is independent of governments, has a fixed supply (and therefore is not at risk of inflation), is not controlled by banks or other entities, and cannot be taken from you, unless you share the key to your digital wallet. It is also easy, fast and cheap to send to others across borders and locally.

Bitcoin is the currency of the people, effectively removing it from the grip of a corrupt government. Sounds far fetched? It's not. Bitcoin is already being used as an insurance policy against corrupt governments in countries such as Cyprus, Ukraine, Venezuela, and El Salvador.

Venezuela provides a blueprint for cryptocurrency adoption. After undergoing its own currency crisis, it is now [widely accepting crypto](#) in over 20,000 small and large businesses. Just like Lebanon, Venezuela too was highly dependent on the U.S. dollar, which perpetuated its economic demise, giving too much power to its American counterparts.

The biggest challenge to switching entire communities to Bitcoin continues to be education.

“Majority of us are still in denial of the financial collapse. People are not looking for any alternatives to the current financial system. Education and awareness are key points in bitcoin usage and adoption. We need to teach people to trust this new thing they have never used before. How to get it and then spend it. There is a strong possibility that the Lebanese diaspora

will infuse Bitcoin by sending to families directly, as they do not trust the remittance system,” says Marcel Younes, founder of [Bitcoin du Liban](#).

There are wealthy expats who want to send money to Lebanon to help, but are unsure of how to do so safely and productively given the current infrastructure issues with banks and remittance shops. Using Bitcoin, families and donors abroad can send funds directly to those who need it, without undergoing any government scrutiny.

Once Bitcoin is within the communities of Lebanon, it can be used to trade within Lebanon for basic goods and services. Alternatively, it can also be used to pay for imports coming into the country, since Bitcoin can be sent and accessed anywhere in the world and converted into either dollars, or digital dollar-backed stablecoins.

Digital currencies provide the key to communities asserting their independence and taking control of their future, away from the corruption of governments.

It remains to be seen which path Lebanon will choose. One thing is clear after months of protests - the Lebanese are some of the most dedicated and most vibrant people in the world, and have the strength to overcome this period in history and thrive again.



A Lebanese child is pictured in Beirut's Martyr Square during a gathering on Lebanon's Independence ... [+] AFP VIA GETTY IMAGES

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